Materials Distribution Agency

Annual Report

FOR THE YEAR ENDING MARCH 31, 2002

MATERIALS
DISTRIBUTION
AGENCY

103-00377/

MATERIALS DISTRIBUTION AGENCY

TABLE OF CONTENTS

Minister's Letter of Transmittal	2
Deputy Minister's Letter of Transmittal	3
Chief Operating Officer's Report	4
Advisory Board Members and Agency Management Background	5
Background	6
Agency Structure	7
Mission	9
Goals and Objectives	9
Projects/Activities begun in 2001-02	12
Projects/Activities to begin in 2002-03	19
Auditor's Report	24
Financial Statements	25

MINISTER OF TRANSPORTATION AND GOVERNMENT SERVICES

July 15, 2002

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

May It Please Your Honour

I have the privilege of presenting the Annual Report of Materials Distribution Agency (MDA) for the year ending March 31, 2002.

MDA has served the Manitoba Government for 28 years and has been a Special Operating Agency (SOA) for the last nine. MDA's dedication to providing quality, cost-effective centralized materials management has recently been acknowledged by the Provincial Procurement Council, who have designated MDA as the Government's "Supplier of Choice".

MDA staff and managers have faced significant challenges over the last year and continue to offer outstanding services to all clients.

I am very proud of MDA and its continuing support to the broader public service.

Respectfully submitted,

Steve Ashton
Minister Responsible for
Materials Distribution Agency

Manitoba

A/Deputy Minister of Government Services

332 Legislative Building
Winnipeg MB R3C 0V8

Telephone: (204) 945-4414
Facsimile: (204) 945-1857

July 15, 2002

The Honourable Steve Ashton
Minister Responsible for Materials Distribution Agency
Department of Transportation and Government Services
Room 203, Legislative Building
Winnipeg, Manitoba R3C 0V8

Dear Mr. Minister:

I am very pleased to submit, for your review and consideration, the ninth Annual Report of Materials Distribution Agency (MDA) for the year ending March 31, 2002.

MDA has continued to build partnerships with the Regional Health Authorities to provide Manitobans with a wide variety of health supplies and equipment. As well, in consultation with Child Special Services, Employment & Income Assistance, Student Service Administration in Manitoba, Manitoba Education and Training, and Pediatric Home Care, MDA has begun a program to provide supplies to Manitobans with Special Needs. This innovative initiative will reduce administrative time for case workers and parents, standardize products and provide increased efficiencies.

Finally, on April 1, 2002 MDA assumed responsibility for the warehousing distribution for the Manitoba Textbook Bureau. Unique challenges tested MDA's abilities to the limit, however, clients are very pleased with our performance in such a short time.

I am very proud of the MDA staff and their combined commitment to provide excellent service.

Respectfully submitted,

Gerry Berezuk
A/Deputy Minister and Chairperson of the
Materials Distribution Agency Advisory Board

CHIEF OPERATING OFFICER'S MESSAGE

To the Stakeholders of
Materials Distribution Agency

When I joined MDA in November 2001, I was excited to have the opportunity to work with a Special Operating Agency. I have not been disappointed yet!

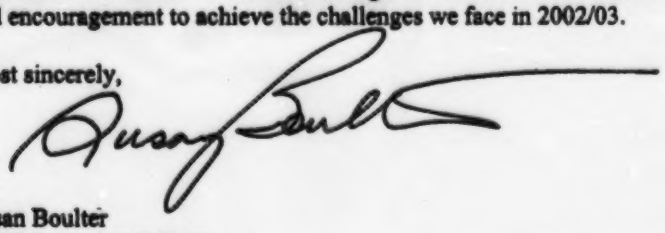
MDA is an incredible place to work – because of the great staff and the constant challenges and ability to grow.

MDA's business revenues have tripled in five years and the Agency's vision is to see similar growth in the years to come. However, with that growth comes the need to be flexible to meet the demands of additional clients and be responsive to existing stakeholders.

MDA recognizes that it must objectively plan its future staffing resources, site and systems. The current management team has made strategic short and long term plans to ensure MDA is able to meet those client expectations. We are undergoing an Organizational Review to determine the right structure and staff reserves; a system module redesign to address systems issues; and a site review to determine optimum logistic needs. This should lead to improvements in all three areas.

I want to thank every person at MDA who has welcomed me to this dynamic environment and who has worked so hard to meet the challenges over the last six months. Please accept my congratulations and encouragement to achieve the challenges we face in 2002/03.

Most sincerely,



Susan Boulter
Chief Operating Officer
Materials Distribution Agency

Advisory Board Members

Mr. Gerry Berezuk A/Deputy Minister Government Services & Emergency Measures	Chairman
Mr. Norm Fiske Partner Sill & Co.	Member
Mr. Raymond West Retired Chairman of the Board A. E. McKenzie Co. Ltd.	Member
Mr. John Hosang Assistant Deputy Minister Manitoba Transportation & Government Services	Member
Mr. F. A. (Al) Macatavish Vice-President, Retired Manitoba Hydro	Member
Mr. Dan Thagard Staff Representative Materials Distribution Agency	Member
Ms. Tracey Danowski A/Assistant Deputy Minister Manitoba Transportation & Government Services	Member (ex officio)
Ms. Susan Boulter Chief Operating Officer Materials Distribution Agency	Member (ex officio)

Agency Management

Mr. Joel Hershfield	Manager of Finance & Technology
Ms. Kathy Demchuk	Marketing Manager
Ms. Rhonda Boyd	Equipment Manager
Mr. Robert Bryk	Inventory Manager
Mr. Robert Nicholls	A/Manager of Logistic Services

BACKGROUND

Materials Distribution was created in 1974 to provide centralized materials management services for government departments, boards, commissions and agencies. By taking advantage of economies of scale, the organization was established to provide government with lower overall costs in materials management. The Agency's mandate is to effectively meet the supply requirements of a wide spectrum of organizations within the broad public service, including Provincial, Federal and Municipal governments.

To further its pursuit in providing excellent service and dedicated attention to customer needs, the Materials Distribution Agency (MDA) was established as a Special Operating Agency (SOA) on April 1, 1993. The Agency is designated, and its Charter established in accordance with the *Special Operating Agencies Financing Authority Act*.

Conditions of financial restraint, socio-economic trends, rapid changes in the global economy, and increasing client expectations have caused governments to explore new and increasingly innovative program and service delivery solutions. The SOA concept reflects government's realization of the need to change to support:

- ✓ Improved service to clients;
- ✓ Increased latitude for innovation;
- ✓ Empowerment of public servants;
- ✓ Better management of people; and
- ✓ Clearly defined accountability for results.

Special Operating Agencies are operational organizations within departmental structures and operate under a Treasury Board and departmentally approved Business Plan. In addition, accountability relationships are defined by its Charter and Schedule of Delegated Authorities. These framework documents lay out target commitments for service levels and financial performance.

MDA has been accorded more direct responsibility for results, and management has received additional flexibility to make decisions affecting:

- ✓ staffing;
- ✓ capital investments;
- ✓ rate setting; and
- ✓ financial systems and accounting procedures.

AGENCY STRUCTURE

The day-to-day operations of the Agency are managed by the Chief Operating Officer, who reports to the Assistant Deputy Minister, Supply and Services Division of Government Services. The Chief Operating Officer provides plans and reports to the Agency's Advisory Board for review and to the Minister of Transportation and Government Services and Treasury Board for final approval.

The current Advisory Board is chaired by the Deputy Minister of Government Services & Emergency Measures, with representation from both government and non-government bodies. The Assistant Deputy Minister and Chief Operating Officer are ex officio members of the Board.

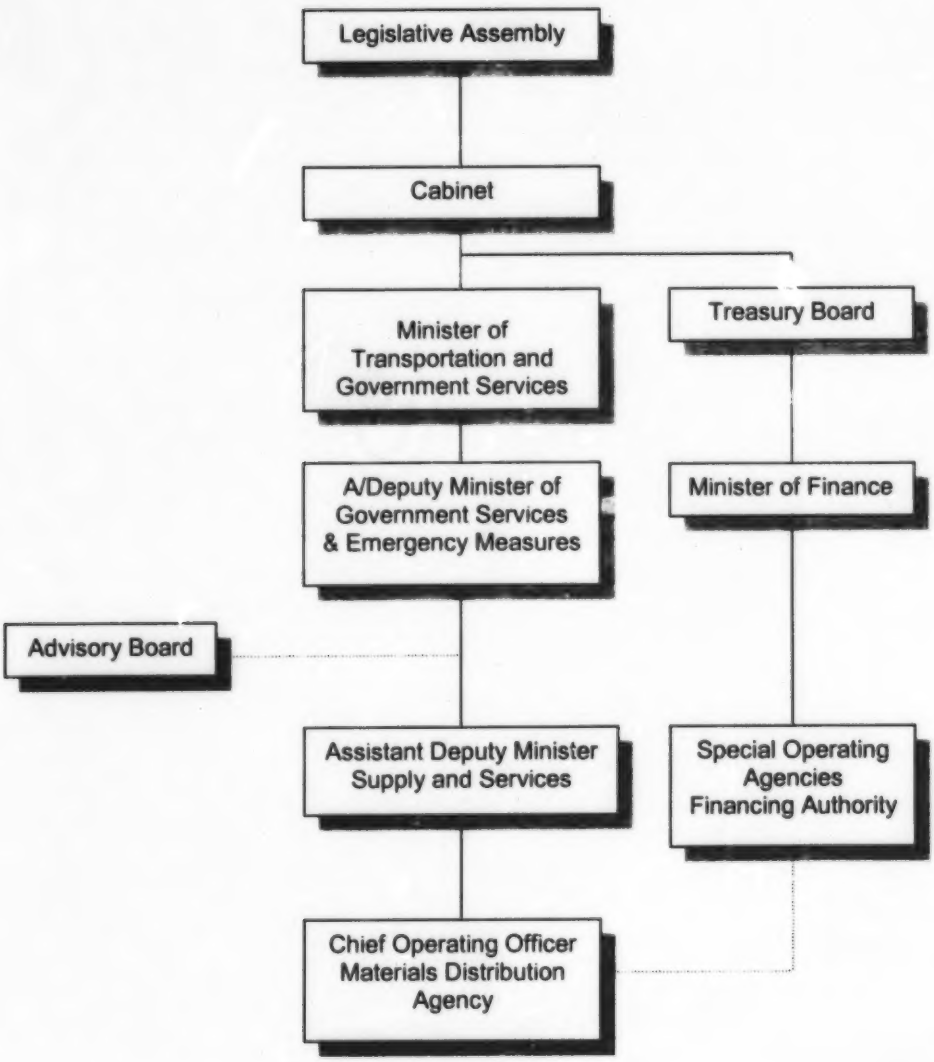
The Board consists of the following members:

- the Deputy Minister of Government Services & Emergency Measures;
- two client representatives;
- one Materials Distribution Agency staff representative, and
- two representatives from the private sector knowledgeable in private sector business practices and operating principles.

The Advisory Board adopts an "advisory" role in the affairs of the Agency versus one of decision-making. The primary role of the Board is to:

- offer advice on the Agency's strategic direction and objectives, performance, business practices, marketing strategies, and management and financial reporting requirements;
- review the Agency's quarterly financial reports, annual Business Plan, Annual Report and any proposed changes to the Agency Charter; and
- offer support regarding private, public and client sector issues and initiatives.

The accompanying chart identifies Materials Distribution's accountability within the established structure.


Legislative Assembly
Cabinet
Minister of Transportation and Government Services
Treasury Board
A/Deputy Minister of Government Services & Emergency Measures
Minister of Finance
Advisory Board
Assistant Deputy Minister Supply and Services
Special Operating Agencies Financing Authority
Chief Operating Officer Materials Distribution Agency

MISSION

The Agency's mission as stated in its Charter is:

> To provide the Province of Manitoba and the broader public sector with excellent materials management services at the lowest possible cost and greatest value.

Four founding principles support the Agency's mission:

- Excellence in Customer Service
- Commitment to Teamwork
- Dedication to Continuous Improvement
- Flexibility to Meet Customer Needs

GOALS and OBJECTIVES

The goal of the Agency as defined in its 2001/2002 Business Plan is:

> As the Supplier of Choice for the Province of Manitoba and the broader public sector, to provide our customers with superior service and best value pricing to meet their materials management expectations.

The Agency is governed by the following six objectives defined in its Business Plan as follows:

- to provide customers with efficient and effective inventory, warehousing, transportation, equipment management, storage and disposal services that offers superior service, outstanding selection and better value for money than they could otherwise achieve;
- to run operations according to best business practices;

- to update our order processing, operating equipment and other assets, when our operational needs change;
- to follow best public and private sector employment practices and to continually encourage staff involvement in all aspects of operations;
- to continually assess policies, programs and procedures in relation to its overall effectiveness in meeting the changing needs and expectations of customers; and
- to achieve financial and performance targets

Operating goals and objectives may change from year to year as objectives are met and new initiatives become important. The Agency is dedicated to a policy of continuous performance improvement.

PRODUCTS and SERVICES

Materials Distribution Agency offers a number of material support services. The backbone of the operation, and its largest revenue source, is from the sale of stocked commonly used items. Eight distinct commodities were offered in 2001/2002 including stationery and office supplies, janitorial supplies, laboratory, x-ray, ultrasound and ECG supplies, home care, public health, and reproductive health supplies, office furnishings and furniture, and computer software. Specific item counts for each commodity line are listed below:

Commodities	Line Items
Stationery and Office Supplies	954
Janitorial Supplies	365
Laboratory, X-ray, Ultrasound and ECG Supplies	327
Home Care Supplies	705
Public Health Supplies	103
Reproductive Health Supplies	27
Office Furnishings and Furniture	151
Computer Software	244
Total Line Items	2,876

In addition, the Agency offers several other materials management services including:

Equipment Rental, Service and Repair

The Agency handles over 21,000 individual pieces of 47 different types of home care equipment, which are distributed to over 30,000 clients across the Province. Service and repair of 2,200 individual pieces of 19 different types of office equipment are also provided to over 524 government clients.

Transportation, Moving and Office Relocation Services

The Agency's Transportation Manager, working in conjunction with Accommodation Development, EDS, MTS, and Workshop Renovations, provides government departments, boards, commissions and agencies with material and equipment moving and transportation services, including the relocation of offices across the Province.

Storage and Distribution Services

Warehouse storage services are offered to provide clients with secure storage facilities for items not required on a daily basis. This service also offers inventory tracking and distribution for the Province.

Disposal Services

The Agency also provides services for material and equipment that are no longer required by the Province. Usable materials are redistributed to other government departments while items that have no further use are sold by tender or auction or are sent to a recycling company.

PROJECTS/ACTIVITIES BEGUN OR COMPLETED IN 2001/02

Customer Service

MDA-INTERNATIONAL H.O.P.E. (Health Overseas and Project Education) Partnership

Unused medical supplies, close to expiry dates, are routinely discarded by medical facilities. International H.O.P.E., an association of health care volunteers, collects these goods and arranges for them to be flown to desperate clinics in Malawi and Afghanistan.

In March 2002, MDA formed a partnership with International H.O.P.E. to be the central depot for all the unused medical goods. MDA is able to receive the goods during the normal work hours when H.O.P.E.'s volunteers are not available. H.O.P.E. routinely picks up batches to take to its headquarters to sort, pack and ship.

MDA is proud to help the third world and to recycle valuable medical goods that otherwise would go to a landfill.

Procurement Council

MDA became a member of the Government of Manitoba Procurement Council in December 2001, as a positive way to meet representatives of every government department every month, hear their concerns and issues with the procurement cycle, and adapt MDA's processes accordingly.

Child Special Services

Materials Distribution Agency (MDA) has been working with Child Special Services (CSS) as part of a government initiative to improve the lifestyles of Manitobans with special needs while at the same time providing a significant cost saving to the Government of Manitoba. The vision of these government departments was to create a streamlined process that would serve the needs of caseworkers with centralized purchasing of medical supplies and equipment.

Effective April 1, 2002 MDA implemented a streamlined process for ordering medical supplies. Previously, caregivers and individuals with special needs were required to obtain three quotes for medical supplies and submit them to their caseworkers for approval. Approved goods were then purchased at full retail cost. The process was costly and time consuming for both caseworkers and caregivers.

MDA now purchases approximately 25-30 quality of life products such as diapers and baby wipes on behalf of Child Special Services creating cost savings of 29% over retail. Caseworkers, in consultation with their clients, determine medical supplies that are required for a six-month period. Only one order form is required to be submitted to MDA and MDA tracks the budgets on their behalf, giving caseworkers more time to spend with their clients and less time completing paper work. As well, caregivers are no longer burdened with purchasing supplies.

Currently 36 clients are on program, which has saved the Government of Manitoba over $6,000.00 in six months. MDA anticipates many more clients will be placed on the program in the near future.

Employment and Income Assistance (E.I.A.) On- Line Computer Order Form

MDA, in conjunction with EIA, have been developing an on-line computer form that will provide caseworkers, in consultation with their client, the ability to place orders for delivery direct to the client. This computer program is user friendly as it instantly recalls stored data on clients, further streamlining the ordering process. This program will offer an on-line catalogue with detailed product description and pictures, eliminating the need for paper catalogues for each individual caseworker. Once the computer program has been fully developed, MDA will provide the caseworkers with a training session and user manual.

EIA has provided MDA with a list of medical equipment that they are interested in leasing. The concept is to take advantage of volume purchasing and make equipment available to other programs when it is no longer required. MDA is currently setting up a Product Review Committee, which will consist of Occupational Therapists and Physiotherapists to ensure that the most appropriate equipment is being selected to meet client needs.

Other Services Provided to CSS and EIA

Under this initiative, MDA will obtain three quotes on behalf of caseworkers for special orders not available through the Medical Supply Catalogue, alleviating time-consuming activities of these caseworkers.

Finally, MDA is providing the service of picking up used equipment owned by CSS & EIA, disinfecting/cleaning and making any necessary repairs, making the equipment available to other clients within their program. Previously the repairs would be done outside of government at a higher cost.

Green Strategy

In co-operation with Procurement Services Branch, MDA is working to ensure green product selection increases in the MDA catalogue. We invite government staff to forward information or suggestions about Green products so we can work together to help the Government of Manitoba achieve its sustainable development goals.

MDA offers a reporting service that details the products purchased from MDA. We can take it one step further and report on the "green" product department's purchase from MDA. This new free service is called Green Reports.

MDA has introduced a Sustainable Development (SD) Trivia Contest geared at educating our customer about the benefits of sustainable development and using recycled paper This process will also address the "myths" associated with recycled paper, copying machines and printers.

As well, MDA continues to promote Sustainable Development in annual publications and other MDA Promotional Materials. This theme will also be incorporated into our customer seminar planned for the fall of 2002 and into the purchase contracts for new products and services

Customer Contact

During the past fiscal year, and into 2002/03, MDA has increased customer contact. Plans for the upcoming year include a customer seminar on September 19th and the creation of a product review committee. As well, efforts to increase customer contact, service customer accounts, identify new business opportunities and measure current service delivery are also in the works.

Agency Structure

To operate effectively, in a business-like manner, MDA must be more responsive to client needs and their increasing expectations. MDA must improve its computer system and needs staff to do so. For all these reasons, MDA has undergone an organizational review. MDA will identify each area's staffing needs and realign some responsibilities to be better poised for changing workloads and future client needs.

Employee Communication Survey

During the last quarter of the fiscal year, MDA commissioned Service Manitoba to conduct an employee communication survey. The intent was to determine the health of the organization; including the feelings of the employees toward management, the level of communication within the organization, the level of openness within the organization, and the co-operation between different sections of MDA.

Despite the past instabilities caused by frequent changes in the management of this organization, the results indicated that staff were hopeful of the Agency's future and its vision and principles. It was evident that more and better communication to and from staff was an important requirement as well as the inclusion of employees in more decisions.

The organization, in its new vision, has taken a giant leap in putting people first. Its most important goal is to ensure the well being of its employees. To this end, ongoing feedback from employees will become a regular part of the operations.

Information Technology

Sales Order System

MDA's current system runs less than optimally and it is unable to accommodate current and future needs. It is critical that MDA design and implement a stable, flexible sales module for its system.

During March 2002, MDA contracted with PowerPlus to prepare a business specification document for a new sales order system that would interface with our accounting system. This would include new as well as existing requirements.

The process took approximately two weeks involving staff from all areas of the organization to discuss and document requirements.

The system will replace the current Sales Order System that is embedded in Great Plains Dynamics. The anticipated roll out will be the summer of 2003.

Financial

Review of Operations

The following financial review and analysis compare the actual results for the year ended March 31, 2002 to the projections for the same period and to the actual results for the year ended March 31, 2001 The projected financial statements are those that were finalized in May 2001 as part of MDA's 2001/02 Business Plan

MDA reported net income of $504,000 for the year ended March 31, 2002 compared to a projected $743,000 for 2002 and actual of $957,000 for the year ended March 31, 2001.

	2002 Actual	2002 Projected	2002 Actual vs 2002 Projected Increase/ (Decrease)	2001 Actual	2002 Actual vs 2001 Actual Increase/ (Decrease)
Sales	$18,771	$15,861	$2,910	$19,095	$ (324)
Cost of goods sold	14,878	11,793	3,085	14,935	(57)
Gross profit	3,893	4,068	(175)	4,160	(267)
Expenses					
Salaries and benefits	2,399	2,234	165	1,988	411
Operating costs	323	302	21	337	(14)
Administrative Expenses	667	789	(122)	878	(211)
	3,389	3,325	64	3,203	186
Net income	$ 504	$ 743	$ (239)	$ 957	$ 453

Sales compared to projected sales show a favourable variance of $2,910. The majority of increases are attributable to software and computer supplies ($2,515) and new furniture ($523). No category of sales were significantly under projections.

There is no significant gross profit percentage variance between the actual 20.74% in 2001/02 and 21.79 in 2000/01. The actual percentage for 2001/02, however, falls far short of the 25.6% projected for 2001/02, primarily the result of lower gross profit margins on categories that showed significant jumps in sales such as software and computer supplies.

Financial Position

Accounts receivable decreased by $1,226 as of March 31, 2002, compared to the balance one year earlier, primarily the result of more than $1 million in new furniture sales recorded in the previous year.

The Agency did not have to use its working capital payable line of credit at any time during 2001/02. The Agency has no working capital payable outstanding.

Remaining cash generated by operations was used to purchase capital and other assets and to pay revenue sharing amounts to the Consolidated Fund ($400).

Ratio Analysis

Ratio analyses comparing actual to projected calculated amounts are provided in the table on the next page.

The overall gross profit percentage has remained relatively constant in all three years.

The days sales in receivables ratio for 2001/02 was affected by the large volume of new furniture sales during the month of March 2001, the majority of which was collected in April 2001.

Ratio	March 31			
	Projected	Actual		
	2002	2002	2001	2000
Return on total revenue	4.68%	2.68%	5.01%	3.62%
Return on average assets	8.49%	6.29%	11.42%	7.72%
Gross profit percentage	25.67%	20.74%	21.79%	22.00%
Debt to equity	.26 to 1	.42 to 1	.70 to 1	.74 to 1
Current ratio	4.95 to 1	2.69 to 1	2.21 to 1	2.46 to 1
Days Sales in receivables	49 days	48 days	72 days	59-60 days
Inventory turnover on warehoused items	6.0 times	5.94 times	5.40 times	5.23 times

Performance Measures

	2001/02 Actual	2000/01 Actual	1999/00 Actual
Turnaround time – Rural orders Turnaround time – Urban orders	4 2	4 2	5 3
# Sales Invoices	90,039	81,903	82,650
# Inventory Items	2,876	3,621	4,150
Stocked Response Rate	98.8%	98.7%	98.5%

Warehouse

MDA has seen the volume and breadth of products grow in all fields. Current clients are ordering more of stock products commonly stocked, while also demanding that MDA expand its lines of goods.

As government agencies are asked to contain their spending, they look to MDA to assume warehousing and distributing at a lower cost. MDA has had to lease/rent a third warehouse (on a month-by-month basis) to accommodate the overflow. MDA has undertaken a review of its site needs to assess what it should have to accommodate current work loads and future growth. When the review is completed, MDA will determine what solution can be effected to consolidate its operations and realize efficiencies.

PROJECTS/ACTIVITIES BEGINNING 2002/03

Customer Service

Audit of Processing Time

MDA is increasing the auditing of the time it takes from receipt of an order through to the time the customer actually receives the order. This will allow us to ensure that we are actually meeting our statements on delivery time.

We are able to get most of the data from our system and we can easily obtain the final piece of information from the delivery manifests.

This will allow us to determine if we are meeting our goals and if not to allow us to determine where the breakdown in the process might be. We are attempting through this process to start using our time more effectively in areas to obtain more value for our money.

MDA's Catalogue of Products and Services

MDA catalogue (Stationery, Furniture and Furnishings, Janitorial, Software)

For the 2002/03 fiscal year, MDA will introduce a new and improved catalogue to promote MDA's traditional product and service lines. MDA distributes over 3000 catalogues to the public sector. The 2002/03 Catalogue will be in colour, with many product pictures and is professionally designed and printed. As part of this process, a PDF document which provides an electronic version of the catalogue will also be available.

Medical Catalogue (Medical Supplies and Equipment)

This catalogue features products and services for the Homecare program and more recently other government departments. An electronic E-Order catalogue is being pursued to accommodate the government market segment.

Medical equipment

Elderly and challenged clients have expressed concern that they reach voicemail after hours. For clients who encounter problems on the weekends, we will be implementing a "Live Answer Messaging Service" after hours. If clients call any of our health phone lines, after hours, and feel they are in an urgent situation, a Medical Technician can be reached to assist them.

We have purchased a barcode system and label printer to increase our levels of accuracy and efficiency for medical equipment. We will be able to ship and receive medical equipment by scanning barcodes, reducing our error rate in recording serial numbers manually. This process will also decrease our fulfillment and invoicing time. The label printer gives up more flexibility in designing and creating serial numbers for our Agency and also other government agencies we service.

We have expanded our medical equipment and consumable product line by purchasing power lifts, slings, commodes, and children's diapers.

Employee Relations

Employee Education

In the communication survey, staff stated there was a need for training and performance management. Therefore employees are designing a new performance management form that will include a section for relevant training.

This ties in to the new vision of the organization that states and follows through that employees are the most important part of this organization.

Strategic education plans will be tailored for staff in the areas of customer service, logistics management, marketing, accounting, end user computer programs, etc. In addition, management will also be given training to assist them in fulfilling their duties as leaders.

Warehouse

MDA has in the past year experienced a number of challenges and opportunities, with a large number of these directly affecting the warehouse environment.

Manitoba TextBook Bureau

Materials Distribution Agency, with Manitoba TextBook Agency (MTBB), has been granted approval from Treasury Board to enter into a joint partnership over a three year term for the warehousing, picking, packing and delivery of product for public schools.

Materials Distribution Agency staff have worked closely with MTBB staff to identify the immediate and long term needs of both agencies for an efficient and timely transition from their present warehouse environment, to Materials Distribution Agency's warehouse facility.

On page 6 of MDA's 2000/2001 Annual Report, we noted that MDA has purchased and incorporated two state of the art product carousels to allow for more efficient warehousing of products for MTBB. These carousels will replace small order picking shelves in MTBB's present warehouse environment. The Carousel system will increase order picking efficiency and allow for products that were housed in 4,000 sq.feet on two floor levels to be placed within the warehouse at Materials Distribution, using only 735 sq. feet.

Process Changes

In the 2002/03 business year, Materials Distribution Agency will incorporate a new fulfillment process with regards to order picking and packing. At present the Agency's warehouse staff will pick, pack and label an order from start to finish. The new process will separate the picking and packing of orders, having a number of staff picking an order, and another group verifying, packing and labeling any given order. This process will speed up the over all process and increase efficiency while decreasing order error picking.

Space Requirements

The present location is inefficient due to space limitations. Present and future business opportunities are compromised by this situation. Materials Distribution Agency will have external resources examine the Agency's space requirements for the year 2002 and beyond. The Agency will then assess its options and act accordingly.

Information Technology

Electronic Data Interface

Currently, all departments who enter MDA orders on the government wide SAP system, must then fax the order to MDA as MDA's order module is a separate stand alone system from SAP. MDA's entry staff then re-enters the order into its sales/accounting system for processing. This is repetitious, time consuming and paper intensive.

MDA has met with Enterprise System Management (ESM) and is partnering to have this information transferred electronically from SAP to Great Plains on a real time basis. This will eliminate large amounts of paper, speed up processing time, reduce possible key errors, and will improve customer relations. This will allow our order entry people to better service their customers by allowing them to focus on products and concerns rather than on data entry.

This process has the potential to allow MDA to invoice the departments electronically directly into SAP. This would reduce current invoicing steps, paper, queries, etc. This will be a benefit to both MDA and its government customers.

In addition, this process has the potential to allow the government to take the step into e-procurement. MDA will be used as a test case to determine how the process will work for Government orders.

Materials Distribution Agency
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba
Responsibility of Financial Reporting

The Agency's management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations in accordance with generally accepted accounting principles. The financial statements have been audited by The Exchange Group, independent external auditors.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that transactions are authorized, properly recorded and reported, and that assets are safeguarded.

The Advisory Board has scheduled meetings with management to review accounting practices, financial reporting and to discuss audit results. The auditors have free and full access to this Board, to discuss the results of the audit and their views on the adequacy of internal controls and the quality of financial reporting.

Susan Boulter
A/Chief Operating Officer

Joel Hershfield
Manager of Finance and Technology

June 4, 2002

THE EXCHANGE

chartered accountants

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Materials Distribution Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2002 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2002 and the results of its operations and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

THE EXCHANGE

chartered accountants

Winnipeg, Manitoba
June 4, 2002

100-123 Bannatyne Ave., Winnipeg, Manitoba R3B 0R3
Telephone (204) 943-4584 Fax. (204) 957-5195
E-mail info@exg.ca Website. www.exg.ca

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

BALANCE SHEET
(In Thousands)
AS AT MARCH 31, 2002

ASSETS

	2002	2001
CURRENT		
Cash and short term investments	$1,917	$1,787
Accounts receivable	2,549	3,775
Inventories (notes 2 and 3)	1,333	1,538
Prepaid expenses	33	26
	5,832	7,126
ACCOUNTS RECEIVABLE – PROVINCE OF MANITOBA (note 10)	288	288
CAPITAL ASSETS (notes 2 and 4)	674	650
OTHER ASSETS (notes 2 and 5)	568	602
	$7,362	$8,666

LIABILITIES

CURRENT		
Payables and accruals (note 6)	$1,931	$3,355
SEVERANCE LIABILITY (note 9)	234	218
	2,165	3,573

EQUITY

CONTRIBUTED EQUITY (note 7)	1,246	1,246
RETAINED EARNINGS	3,951	3,847
	5,197	5,093
	$7,362	$8,666

Commitments (note 8)

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF INCOME AND RETAINED EARNINGS
(In Thousands)
YEAR ENDED MARCH 31, 2002

	2002	2001
SALES, schedule 1	$18,771	$19,095
COST OF GOODS SOLD	14,878	14,935
GROSS PROFIT	3,893	4,160
EXPENSES		
Salaries and benefits	2,399	1,988
Operating costs	323	337
Administrative expenses, schedule 2	667	878
	3,389	3,203
NET INCOME	504	957
REVENUE SHARING – Province of Manitoba	(400)	(525)
RETAINED EARNINGS, beginning of year	3,847	3,415
RETAINED EARNINGS, end of year	$ 3,951	$ 3,847

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF CASH FLOWS
(In Thousands)
YEAR ENDED MARCH 31, 2002

	2002	2001
OPERATING ACTIVITIES		
Net earnings	$ 504	$ 957
Amortization	557	623
	1,061	1,580
Change in		
Investments – pension related	0	529
Accounts receivable	1,226	(677)
Inventories	205	10
Prepaids	(7)	36
Payables and accruals	(1,424)	137
Severance pay liability	16	(18)
	1,077	1,597
INVESTING ACTIVITIES		
Acquisition of Home Care equipment	(309)	(355)
Acquisition of capital assets	(100)	(26)
Acquisition of other assets	(138)	(16)
	(547)	(397)
FINANCING ACTIVITIES		
Revenue sharing to the Consolidated Fund	(400)	(525)
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	130	675
CASH AND SHORT-TERM INVESTMENTS, beginning of year	1,787	1,112
CASH AND SHORT-TERM INVESTMENTS, end of year	$ 1,917	$ 1,787

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

1. NATURE OF ORGANIZATION

The Government of Manitoba established a central warehouse operation in 1974. Its mandate was to cost effectively meet the needs of departments and certain boards, commissions and agencies of the Crown, for a variety of commonly used items.

Effective April 1, 1993, Materials Distribution Branch was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Transportation and Government Services assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of the Financing Authority.

The Materials Distribution Agency continues to be part of Manitoba Transportation and Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Materials Distribution Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

The Materials Distribution Agency is economically dependent on the Province of Manitoba and the Manitoba Regional Health Authorities, deriving most of its revenue and all of its capital financing requirements from the Province.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependant upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The financial statements have, in management's opinion been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Basis of Reporting

The financial statements of the Agency are presented in accordance with Canadian generally accepted accounting principles.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Capital Assets

Capital assets are recorded at cost and are amortized annually at the following rates and bases:

Computer equipment	- 20%, straight-line basis
Fixtures	- 20%, straight-line basis
Office equipment	- 20%, diminishing balance basis
Rental equipment	- 20%, diminishing balance basis
Warehouse equipment	- 20%, diminishing balance basis
Leasehold improvements	- over 5 years, straight-line basis

Assets that relate to the transfer of the Home Care Equipment and Supplies Program are recorded at cost and are amortized at accelerated rates as follows:

Computer equipment, accelerated	- 33%, straight-line basis
Fixtures, accelerated	- 33%, straight-line basis
Office equipment, accelerated	- 33%, straight-line basis
Warehouse equipment, accelerated	- 33%, straight-line basis
Leasehold improvements, accelerated	- over 3 years, straight-line basis

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Non-consumable equipment relating to the Home Care Equipment and Supplies Program are amortized at varying rates in order to reflect the varying periods of useable "life".

Rental equipment	- over 2, 3 or 5 years, straight-line basis

Other Assets

Other assets are recorded at cost and are amortized at the following rate on a straight-line basis:

Computer conversion	- over 5 years
Computer conversion, accelerated	- over 3 years

Pension Liability

Employees of the Materials Distribution Agency are eligible for pensions in accordance with provisions of The Civil Services Superannuation Act.

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, Agency transferred the pension liability for its employees to the Province subject to the following:

a) During the 2002 fiscal year, in accordance with the terms of the agreement, the Agency transferred to the Province funds equal to the net assets required to discharge its pension obligations as of March 31, 2001.

b) Commencing April 1, 2001, the Agency is also required to pay the Province an amount equal to its employees' current pension contributions.

c) As of March 31, 2002, the Agency has discharged its pension obligations and has no outstanding liability

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

3. INVENTORIES

	2002	2001
Medical, Lab and X-ray supplies	$ 174	$ 246
Reproductive health supplies	47	53
Medical supplies	382	447
Ostomy supplies	145	272
Equipment consumables	24	12
	772	1,030
Stationery	312	297
Forms	106	73
Janitorial	100	114
Furnishings	18	18
Software and computer supplies	2	0
New furniture	14	1
Office equipment consumables	9	5
	$ 1,333	$ 1,538

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	2002 Net	2001 Net
Computer equipment	$ 43	$ 21	$ 22	$ 31
Fixtures	40	40	0	8
Office equipment	32	25	7	8
Warehouse equipment	174	66	108	55
Leasehold improvements	164	125	39	35
	453	277	176	137
Accelerated				
Computer equipment	48	48	0	0
Fixtures	63	63	0	0
Office equipment	22	22	0	0
Warehouse equipment	61	61	0	0
Leasehold improvements	120	120	0	0
	314	314	0	0
Home Care equipment	1,869	1,371	498	513
	$ 2,636	$ 1,962	$ 674	$ 650

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

5. OTHER ASSETS

	Cost	Accumulated Amortization	2002 Net	2001 Net
Computer conversion	$ 995	$ 427	$ 568	$ 602

6. WORKING CAPITAL PAYABLE

The Agency has an authorized line of working capital advances of $800, none of which was used at March 31, 2002 or 2001.

7. CONTRIBUTED EQUITY

Loan Authority – April 1, 1993

The Special Operating Agencies Financing Authority (SOAFA) and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventory and fixed assets valued at $1,464 required for the continuing operations of the Materials Distribution Agency as at March 31, 1993. The Agency repaid the debt portion of $732 (being ½ of the value of the assets) and recorded the balance, $732, as Manitoba's equity in the Financing Authority as related to the Agency operations.

Loan Authority – April 1, 1997

SOAFA and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority for the net assets of the HCESP valued at $1,027 as at April 1, 1997. The Agency repaid the debt portion of $513 (being ½ of the value of the assets) and recorded the balance, $514, as Manitoba's equity in the Financing Authority as related to the Agency operations.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

8. COMMITMENTS

Leased Premises

The Agency has entered into a master lease agreement with the Province of Manitoba for rental of facilities at 1680 Church Avenue, Winnipeg, Manitoba, which expires on March 31, 2002.

The Agency has entered into an ancillary lease agreement directly with the landlord for rental of 8,500 sq. ft. at 1660 Church Avenue, Winnipeg, Manitoba, which expired on March 31, 2002. Occupancy charges are an annual $31, payable in monthly instalments.

The Agency has also obtained 5,790 sq. ft. at 1678 Church Avenue, Winnipeg, Manitoba, wherein the Landlord has entered into an ancillary lease agreement directly with the Agency. The lease expired on March 31, 2002. Occupancy charges are an annual $17 payable in monthly instalments.

The Agency is reviewing its facility needs.

Revenue Sharing

The Agency's approved 2002/03 Business Plan calls for $400 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2002/03.

9. SEVERANCE LIABILITY

Effective April 1, 1998 the Agency commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 of $254 has been completely offset by a receivable from the Province.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

9. SEVERANCE LIABILITY, continued

An actuarial valuation report of the Agency's severance as at March 31, 2000 was completed in February 2001. The liability as at March 31, 2000 was restated to $210 and the receivable from the Province was restated to $274 as a result of the actuarial valuation.

The actuarial report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $234 as at March 31, 2002.

10. ACCOUNTS RECEIVABLE – PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is for vacation entitlement earned by the employees of Materials Distribution Agency prior to their designation as SOA's. It also includes severance pay benefits earned by SOA employees to March 31, 1998 as well as the benefits accumulated by the employees of the Manitoba Securities Commission prior to March 31, 1997. The balance is comprised of:

	2002	2001
Vacation entitlements	$233	$233
Severance pay benefits	55	55
	$288	$288

The timing of the collection of these receivables will vary for each SOA. The receivable, or portion thereof, for an individual SOA will be collected in the event that there is a cash shortfall. However, this is only likely to happen on the dissolution of an SOA.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2002

11. PUBLIC SECTOR COMPENSATION DISCLOSURE ACT

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation in an amount exceeding $50 annually to any officer or employee of the Agency. For the year ended March 31, 2002, the following employees received compensation in excess of $50.

Name	Position	2002	2001
Ted Norrington	A/Controller	$ 54	$ 0
Kathy Demchuk	Marketing Manager	52	0
Petra Berner-Krieger	Controller	0	61
Grant Cancilla	Equipment Manager	0	62

Schedule 1

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

SCHEDULE OF SALES
(In Thousands)
YEAR ENDED MARCH 31, 2002

	2002	2001
Warehoused Items		
Medical, Lab and X-ray	$ 1,751	$ 1,970
Medical forms	125	131
Reproductive	219	330
Medical supplies	3,731	3,396
Ostomy supplies	1,578	1,487
Equipment consumables	123	109
	7,527	7,423
Stationery	1,966	1,879
Forms	120	180
Janitorial	633	633
Furnishings	84	103
Office equipment consumables	102	101
Software and computer supplies	2,530	1,865
Miscellaneous	8	131
	12,970	12,315
Direct (factored sales)		
Stationery	687	760
Medical, Lab and X-ray	72	121
Janitorial	264	267
Furniture, new	1,422	2,050
	2,445	3,198
Other Revenue		
Home Care equipment rentals	1,603	1,581
Office equipment – copy centres	794	805
Office equipment – maintenance program	133	190
Used furniture	29	25
Disposal	22	38
Moving and freight	618	779
Storage	68	69
Interest	86	95
Miscellaneous	3	0
	3,356	3,582
TOTAL REVENUE	$18,771	$19,095

Schedule 2

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

SCHEDULE OF ADMINISTRATIVE EXPENSES
(In Thousands)
YEAR ENDED MARCH 31, 2002

	2002	2001
ADMINISTRATIVE EXPENSES		
SOAFA fees	$ 2	$ 2
Professional services	10	99
Amortization	232	266
Bad debts	50	0
Computer	251	363
Office	50	62
Promotion and marketing	23	63
Telephone	43	22
Training and education	6	1
	$ 667	$ 878